

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE POWELL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Powell County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$29,019 from the beginning of the year, resulting in a cash surplus of \$118,980 as of June 30, 2002. However, this cash surplus does not reflect unpaid invoices for the jail fund totaling \$29,947.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$959,724. Future collections of \$1,230,199 are needed over the next 10 (ten) years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$49,627 as of June 30, 2002. Future principal and interest payments of \$53,934 are needed to meet these obligations.

Report Comments:

- The Fiscal Court Should Not Obligate Funds in Excess of Revenue Sources
- County Funds Should Not Have A Deficit Fund Balance
- The County Should Prepare An Accurate Outstanding Encumbrance Report

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Bobby Drake, Powell County Judge/Executive
Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Powell County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Powell County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Powell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2002, of Powell County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 22, 2003, on our consideration of Powell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Paul E. Patton, Governor
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The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Powell County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Fiscal Court Should Not Obligate Funds in Excess of Revenue Sources
- County Funds Should Not Have A Deficit Fund Balance
- The County Should Prepare An Accurate Outstanding Encumbrance Report

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 22, 2003

POWELL COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Bobby Drake	County Judge/Executive
Harold Hurst	Magistrate
Timmy Tipton	Magistrate
Shirley Crabtree	Magistrate
William Rice	Magistrate
Bobby Ginter	Magistrate

Other Elected Officials:

Jeff Stiles	County Attorney
Ted Lacy	Jailer
David Scott Frazier	County Clerk
Vickie Reed	Circuit Court Clerk
Darren Farmer	Sheriff
Betty Atkinson	Property Valuation Administrator
Carl Wells, Sr.	Coroner

Appointed Personnel:

Judith Denniston	County Treasurer
Connie Crabtree	Finance Officer
Rodney Barnes	Deputy Judge/Executive

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

POWELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Enterprise</u>
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 73,454	\$ 51,848	\$	\$ 4,062
Interfund Receivables (Note 8)	231,204			
Restricted Cash-				
Powell County Public Projects				
Series 2001 Bond Fund			1,109	
	<u>304,658</u>	<u>51,848</u>	<u>1,109</u>	<u>4,062</u>
Total Assets	<u>\$ 304,658</u>	<u>\$ 51,848</u>	<u>\$ 1,109</u>	<u>\$ 4,062</u>
<u>Other Resources</u>				
Amounts to Be Provided				
In Future Years for:				
Bond Payments (Note 4)	\$	\$	\$ 778,891	\$
Jail Participation (Note 5)	179,724			
Capital Lease (Note 6)	49,627			
	<u>229,351</u>	<u>\$</u>	<u>\$ 778,891</u>	<u>\$</u>
Total Other Resources	<u>\$ 229,351</u>	<u>\$</u>	<u>\$ 778,891</u>	<u>\$</u>
Total Assets and Other Resources	<u>\$ 534,009</u>	<u>\$ 51,848</u>	<u>\$ 780,000</u>	<u>\$ 4,062</u>

The accompanying notes are an integral part of the financial statement.

POWELL COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

Totals
 (Memorandum Only)
 Reporting
 Entity

\$ 129,364
 231,204

_____ 1,109

\$ _____ 361,677

\$ 778,891
 179,724
 _____ 49,627

\$ _____ 1,008,242

\$ _____ 1,369,919

The accompanying notes are an integral part of the financial statements.

POWELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Enterprise
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Bond Series 2001	\$	\$	\$ 780,000	\$
Jail Participation Agreement	179,724			
Capital Leases	49,627			
Unpaid Obligations (Note 7)	29,947			
Interfund Payables (Note 8)	231,204			
Payroll Revolving Account	7,431			
Total Liabilities	<u>\$ 497,933</u>	<u>\$</u>	<u>\$ 780,000</u>	<u>\$</u>
<u>Equity</u>				
Fund Balances:				
Reserved	\$	\$ 51,848	\$	\$ 4,062
Unreserved	36,076			
Total Equity	<u>\$ 36,076</u>	<u>\$ 51,848</u>	<u>\$</u>	<u>\$ 4,062</u>
Total Liabilities and Equity	<u>\$ 534,009</u>	<u>\$ 51,848</u>	<u>\$ 780,000</u>	<u>\$ 4,062</u>

The accompanying notes are an integral part of the financial statements.

POWELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Totals
(Memorandum Only)
Reporting
Entity

\$ 780,000
179,724
49,627
29,947
231,204
7,431

\$ 1,277,933

\$ 55,910

36,076

\$ 91,986

\$ 1,369,919

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

POWELL COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,356,474	\$ 1,278,474	\$ 929,555	\$ 187,629
Receipts - Jail Canteen	18,528			
Other Financing Sources:				
Transfers In	747,359	146,000	5,000	425,500
Interest Earned	5,165			
Bond Proceeds Other Receipts	774,204			
Total Cash Receipts	<u>\$ 4,901,730</u>	<u>\$ 1,424,474</u>	<u>\$ 934,555</u>	<u>\$ 613,129</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,298,880	\$ 996,510	\$ 700,251	\$ 612,613
Expenditures - Jail Canteen	18,551			
Other Financing Uses:				
Schedule of Bond Expenditures	776,228			
Transfers Out	747,359	454,000	171,359	
Bonds:				
Interest Paid	16,391			
Capital Lease - Principal	16,517		8,101	8,416
Total Cash Disbursements	<u>\$ 4,873,926</u>	<u>\$ 1,450,510</u>	<u>\$ 879,711</u>	<u>\$ 621,029</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 27,804	\$ (26,036)	\$ 54,844	\$ (7,900)
Cash Balance - July 1, 2001	95,238	23,128	14,411	3,896
Cash Balance - June 30, 2002	<u>\$ 123,042</u>	<u>\$ (2,908)</u>	<u>\$ 69,255</u>	<u>\$ (4,004)</u>

(a) Increase Prior Year Carry Over Cash Balance \$1.00 for report presentation

The accompanying notes are an integral part of the financial statement.

POWELL COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Type	Special Revenue Fund Type				
Local Government Economic Assistance Fund	CSEPP Fund	Department of Emergency Services Fund	Ambulance Fund	Forest Fire Fund	Housing and Urban Development Fund
\$ 182,188	\$ 141,558	\$ 5,415	\$ 590,883	\$ 1,196	\$ 34,576
2,000	4,000	4,000	146,500		
<u>\$ 184,188</u>	<u>\$ 145,558</u>	<u>\$ 9,415</u>	<u>\$ 737,383</u>	<u>\$ 1,196</u>	<u>\$ 34,576</u>
\$ 83,210	\$ 131,466	\$ 19,234	\$ 754,066	\$ 1,530	\$
98,000	4,000	4,000			16,000
<u>\$ 181,210</u>	<u>\$ 135,466</u>	<u>\$ 23,234</u>	<u>\$ 754,066</u>	<u>\$ 1,530</u>	<u>\$ 16,000</u>
\$ 2,978	\$ 10,092	\$ (13,819)	\$ (16,683)	\$ (334)	\$ 18,576
702	188	14,270	31,674	1,844	1,040
<u>\$ 3,680</u>	<u>\$ 10,280</u>	<u>\$ 451</u>	<u>\$ 14,991</u>	<u>\$ 1,510</u>	<u>\$ 19,616</u>

The accompanying notes are an integral part of the financial statement.

POWELL COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

	Special Revenue Fund Type	Debt Service Fund Type	Enterprise Fund Type
	Economic Development Fund	Powell County Public Project Series 2001 Bond Fund	Jail Canteen Fund
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 5,000	\$	\$
Receipts - Jail Canteen			18,528
Other Financing Sources:			
Transfers In		14,359	
Interest Earned		5,165	
Bond Proceeds Other Receipts		774,204	
Total Cash Receipts	<u>\$ 5,000</u>	<u>\$ 793,728</u>	<u>\$ 18,528</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$	\$
Expenditures - Jail Canteen			18,551
Other Financing Uses:			
Schedule of Bond Expenditures		776,228	
Transfers Out			
Bonds:			
Interest Paid		16,391	
Capital Lease - Principal			
Total Cash Disbursements	<u>\$</u>	<u>\$ 792,619</u>	<u>\$ 18,551</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 5,000	\$ 1,109	\$ (23)
Cash Balance - July 1, 2001			4,085
Cash Balance - June 30, 2002	<u>\$ 5,000</u>	<u>\$ 1,109</u>	<u>\$ 4,062</u>

The accompanying notes are an integral part of the financial statement.

COMBINED STATEMENT OF CASH
FLOWS-PROPRIETARY FUND TYPES

POWELL COUNTY
 COMBINED STATEMENT OF CASH
 FLOWS-PROPRIETARY FUND TYPES

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Funds</u>
	<u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 18,528
Payments to Suppliers	<u>(18,551)</u>
Net Cash Used By Operating Activities	<u>\$ (23)</u>
Net Decrease in Cash	\$ (23)
Cash and Cash Equivalents - Beginning	<u>4,085</u>
Cash and Cash Equivalents - Ending	<u>\$ 4,062</u>

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Powell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Powell County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Powell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Powell County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Powell County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund (LGEA).

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Powell County Special Revenue Fund Type includes the following county funds: CSEPP Fund, Department of Emergency Services Fund, Ambulance Fund, Forest Fire Fund, Housing and Urban Development Fund, and the Economic Development Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Powell County Public Project Series 2001 Bond Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Powell County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Powell County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Powell County Public Project Series 2001 Bond Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit. For the purpose of the statement of cash flows, the county considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

POWELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Long-Term Debt

On August 9, 2001, the County of Powell, Kentucky issued \$780,000 of General Obligation Public Project Bonds (Series 2001) for road projects. The bonds require that semiannual interest and principal payments be made on February 1 and August 1 of each year commencing on February 1, 2002. One principal payment will be due on August 1 of each year commencing August 1, 2002. The bonds will mature August 1, 2011. As of June 30, 2002, the principal amount outstanding was \$780,000. Bond payments for the remaining years are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 31,482	\$ 65,000
2004	28,882	65,000
2005	26,182	70,000
2006	23,282	75,000
2007	20,263	75,000
2008-2012	49,462	430,000
Totals	<u>\$ 179,553</u>	<u>\$ 780,000</u>

POWELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 5. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$510,503 of revenue bonds at various interest rates (7% through 7.4%), of which the county has agreed to pay \$262,451 principal and proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2002, totaled \$179,724. Debt Service requirements for the remaining years are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 12,079	\$ 8,993
2004	11,440	9,610
2005	10,757	10,270
2006	10,027	10,976
2007	9,246	11,731
2008-2012	32,482	71,943
2013-2015	6,000	56,201
Totals	<u>\$ 92,031</u>	<u>\$ 179,724</u>

Note 6. Capital Lease

On November 28, 2001, the county entered into a lease agreement with Case Credit for the purchase of a Case Backhoe. Terms of the lease agreement stipulate a 4-year repayment schedule with monthly principal and interest payments. As of June 30, 2002, the principal balance outstanding was \$49,627. Lease payments for the remaining years are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 2,134	\$ 14,047
2004	1,412	14,768
2005	691	15,489
2006	70	5,323
Totals	<u>\$ 4,307</u>	<u>\$ 49,627</u>

POWELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 7. Unpaid Obligations

Unpaid obligations represent commitments made as of June 30, 2002, that have not been paid. The following table summarizes unpaid obligations for the Jail fund:

	<u>Jail Fund</u>
County's Unadjusted Cash Balance as of June 30, 2002	\$ (4,004)
Unpaid Obligations as of June 30, 2002	<u>(29,947)</u>
Adjusted June 30, Ending Cash Balance	<u><u>\$ (33,951)</u></u>

Note 8. Transfers From Restricted Funds

During the fiscal years ended June 30, 1995, and June 30, 2002, the county transferred restricted Road and Bridge Fund monies to the Jail Fund. As of June 30, 2002, the amount due the Road and Bridge Fund was \$186,204.

During the fiscal year ended June 30, 1994 and June 30, 1995, the county transferred restricted Local Government Economic Assistance (LGEA) Funds to the General and Jail Funds. As of June 30, 2002, the General Fund owed \$20,000 and the Jail Fund owed \$25,000 to the LGEA Fund.

The Powell County Fiscal Court plans to utilize the Road Fund allocation for applicable administrative expenditures so that more General and Jail monies are free to repay Road and Bridge and LGEA Funds. The County plans to repay \$20,000 per year from the General and Jail Funds to the Road and Bridge and LGEA Funds until amounts due to the restricted funds are paid back.

<u>Due From:</u>	<u>Road</u>	<u>LGEA</u>	<u>Audit Year</u>
General	\$	\$ 20,000	1995
Jail	151,204	25,000	1995
Jail	<u>80,000</u>		2002
Total Balance To Repay	231,204	45,000	
 <u>Repayments :</u>			
From General to Road on behalf of Jail	<u>\$ (45,000)</u>	<u>\$</u>	2001
Total Remaining Balance To Repay	<u>\$ 186,204</u>	<u>\$ 45,000</u>	

Note 9. Insurance

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

For the fiscal year ended June 30, 2002, Powell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

POWELL COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 1,291,950	\$ 1,278,474	\$ (13,476)
Road and Bridge Fund	926,546	929,555	3,009
Jail Fund	201,250	187,629	(13,621)
Local Government Economic Assistance Fund	182,092	182,188	96
<u>Special Revenue Fund Type</u>			
CSEPP Fund	140,550	141,558	1,008
Department of Emergency Services Fund	28,500	5,415	(23,085)
Ambulance Fund	483,851	590,883	107,032
Forest Fire	1,100	1,196	96
Housing and Urban Development Fund	16,852	34,576	17,724
Economic Development Fund	10,000	5,000	(5,000)
Totals	<u>\$ 3,282,691</u>	<u>\$ 3,356,474</u>	<u>\$ 73,783</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,282,691
Add: Budgeted Prior Year Surplus			298,311
Less: Other Financing Uses			<u>(37,438)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,543,564</u>

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SCHEDULE OF OPERATING REVENUE

POWELL COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPES		
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type
Taxes	\$ 960,143	\$ 895,963	\$ 64,180
In Lieu Tax Payments	17,878	17,878	
Excess Fees	57,191	57,191	
Licenses and Permits	9,386	9,386	
Intergovernmental Revenues	1,400,894	1,148,447	252,447
Charges for Services	637,017	198,610	438,407
Miscellaneous Revenues	265,659	242,472	23,187
Interest Earned	8,306	7,899	407
Total Operating Revenue	\$ 3,356,474	\$ 2,577,846	\$ 778,628

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

POWELL COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 539,030	\$ 527,434	\$ 11,596
Protection to Persons and Property	515,077	559,623	(44,546)
General Health and Sanitation	188,725	187,742	983
Social Services	29,921	29,721	200
Recreation and Culture	10,186	9,978	208
Transportation Facilities and Services	2,000	221	1,779
Roads	766,846	569,057	197,789
Airports	30,599	30,598	1
Debt Service	67,103	6,482	60,621
Capital Projects	10,032	9,933	99
Administration	474,881	461,795	13,086
Total Operating Budget - All General Fund Types	\$ 2,634,400	\$ 2,392,584	\$ 241,816
Other Financing Uses:			
Transfer to Powell County Public Project Series 2001 Bond Fund	14,359	14,359	
Jail Participation Agreement - Principal on Lease	14,978	8,416	6,562
Capital Lease Agreement - Principal on Lease	8,101	8,101	
TOTAL BUDGET - ALL GENERAL FUND TYPES	\$ 2,671,838	\$ 2,423,460	\$ 248,378

COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

<u>Expenditure Categories</u>	<u>SPECIAL REVENUE FUND TYPE</u>		
	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
Protection to Persons and Property	\$ 775,591	\$ 795,919	\$ (20,328)
Administration	133,573	110,377	23,196
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 909,164	\$ 906,296	\$ 2,868

SCHEDULE OF BOND EXPENDITURES

POWELL COUNTY
SCHEDULE OF BOND EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>Powell County Public Project Series 2001 Bond Fund</u>
Payment to Contractors	\$ 756,728
Administrative Fees	<u>19,500</u>
Totals	<u>\$ 776,228</u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Bobby Drake, Powell County Judge/Executive
Members of the Powell County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Powell County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated April 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Powell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Fiscal Court Should Not Obligate Funds in Excess of Revenue Sources
- County Funds Should Not Have A Deficit Fund Balance
- The County Should Prepare An Accurate Outstanding Encumbrance Report

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Powell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 22, 2003

COMMENTS AND RECOMMENDATIONS

POWELL COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2002

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

1. The Fiscal Court Should Not Obligate Funds in Excess of Revenue Sources

As of June 30, 2002, invoices totaling \$29,947 were not paid because the county did not have sufficient revenues to cover expenditures. KRS 65.140 states that unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor.

	Jail Fund
County's Unadjusted Cash Balance as of June 30, 2002	\$ (4,004)
Unpaid Obligations as of June 30, 2002	(29,947)
Adjusted June 30, Ending Cash Balance	\$ (33,951)

We recommend that the practice of obligating funds when adequate cash is not available to cover the expenditure be stopped. Furthermore, we recommend that all members of the fiscal court review the quarterly outstanding encumbrance report to ensure compliance with KRS 65.140 that requires invoices to be paid within thirty working days.

County Judge/Executive Bobby Drake's Response:

We understand this problem and will do the best to comply as best we can.

POWELL COUNTY
 COMMENTS AND RECOMMENDATIONS
 For The Fiscal Year Ended June 30, 2002
 (Continued)

2. County Funds Should Not Have A Deficit Fund Balance

As of June 30, 2002, the following funds had deficit fund balances:

<u>Fund</u>	<u>Deficit Fund Balance</u>
General	\$ (2,908)
Jail (Including Unpaid Obligations)	\$ (33,951)

The deficit fund balances are a result of overspending the fund balances. In addition, the Jail fund had unpaid obligations, disclosed in Note 7, at the fiscal year end. KRS 68.110 states that the fiscal court shall not in any year expend money in excess of the amount annually levied and collected for that year. Therefore, we recommend that the fiscal court monitor the financial transactions of the county to ensure compliance with this statute.

County Judge/Executive Bobby Drake's Response:

We are aware of this, and will do our best to correct these problems.

3. The County Should Prepare An Accurate Outstanding Encumbrance Report

The county did not include all unpaid invoices on the outstanding encumbrance report. Because of this, the encumbrance report was understated by \$25,981. The invoices were from a wide assortment of vendors for purchases in the Jail Fund. The State and Local Finance Officer, under the authority of KRS 68.210, requires the quarterly outstanding encumbrance report to be cumulative and to reflect all outstanding invoice amounts. We recommend that the county implement procedures to ensure their outstanding encumbrance reports are accurate.

County Judge/Executive Bobby Drake's Response:

We will prepare an accurate list.

PRIOR YEAR FINDINGS

- The Jail Fund Was In A Deficit At The End Of The Fiscal Year

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

POWELL COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
POWELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Powell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Bobby Drake
County Judge/Executive



Judith Denniston
County Treasurer

